

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 FSE-00 ABF-01

DRC-01 SCEM-02 INT-08 SCI-06 PM-07 DODE-00 /204 W

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R 141657Z DEC 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6486

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS LONDON 14781

DEPARTMENT ALSO PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: INTERNATIONAL TRADE AND PAYMENTS ASPECTS OF
PRIME MINISTER HEATH'S STATEMENT IN PARLIAMENT
ON ENERGY CRISIS

1. WHEN ADDRESSING PARLIAMENT ON ENERGY CRISIS AND
MEASURES TO DEAL WITH IT, HEATH SAID UNTIL A FEW WEEKS
AGO HE COULD FORESEE PROGRESSIVE REDUCTION IN BALANCE OF
PAYMENTS DEFICIT IN COURSE OF NEXT YEAR. THIS PROSPECT
HAS DISAPPEARED. U.K. WILL HAVE TO FIND AND EARN THAT
MUCH MORE FOREIGN EXCHANGE IN ORDER TO PAY FOR SAME
AMOUNT OF OIL.

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2. IN LONG RUN, HEATH SAID SOME OF MONEY WILL COME BACK
IN PAYMENT FROM OIL COUNTRIES FOR U.K. EXPORTS. WITHIN

FIVE TO SEVEN YEARS, TWO-THIRDS OF OIL NEEDS WILL COME FROM NORTH SEA, AND IN DUE COURSE WILL MAKE AN ENORMOUS IMPROVEMENT IN U.K. BALANCE OF PAYMENTS POSITION. IN SHORT RUN, HOWEVER, U.K. WILL HAVE TO PAY MORE FOR OIL, AND AS A COUNTRY WILL HAVE LESS TO SPEND ON OTHER THINGS FROM ABROAD. CHANCELLOR BARBER ON DECEMBER 17 WILL MAKE STATEMENT ABOUT FRESH MEASURES TO ACHIEVE THESE PURPOSES. OTHER COUNTRIES WILL BE SIMILARLY AFFECTED AND WILL HAVE TO CONSIDER IMPLICATIONS FOR THEIR BALANCE OF PAYMENTS.

3. HEATH CONCLUDED THERE IS ACUTE DANGER THAT IF NATIONS INDEPENDENTLY RESORT TO DEFLATIONARY MEASURES FOR THE SAKE OF THEIR INDIVIDUAL BALANCES OF PAYMENTS THIS WOULD SET OFF DISASTROUS SLUMP IN LEVEL OF WORLD TRADE. IT WOULD REQUIRE ALL THE EFFORT AND FARSIGHTEDNESS OF WHICH THE INTERNATIONAL COMMUNITY IS CAPABLE TO ESCAPE THESE CONSEQUENCES.

4. COMMENT: DURING PAST MONTHS THERE HAVE BEEN CALLS FOR SOME FORM OF CONTROL OVER IMPORTS FROM ACADEMIC AND BUSINESS COMMUNITIES. THERE IS WIDESPREAD SPECULATION THAT ANNOUNCEMENT ON MONDAY BY CHANCELLOR BARBER MAY INCLUDE RESTRAINTS ON IMPORTS, POSSIBLY LIMITED TO LUXURY IMPORTS, INCLUDING AUTOMOBILES.

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